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THE JOURNAL OF POLITICAL ECONOMY

JUNE—1894.

MONETARY STANDARDS.

A FEELING is widespread among us that the maintenance of our present monetary system works injustice to those who have borrowed money for future payment, and that it is bringing us into a state of financial strain, of which the recent crisis was but a premonition. I wish to deal here briefly with some of the conceptions back of this feeling.

Naturally the national government, since it mints, and prints the currency, and seems to possess a complete monopoly of it, is held responsible for all the evils which seem to flow from a want of money. The power of the government over individual welfare, through the power to control the supply of money, seems unlimited. When so many people want money, it is natural that considerable discontent should be felt at the difficulty of getting it. It is plain, however, that the monopoly of the government is not a monopoly of gold and silver, but is a monopoly of the privilege of certifying to the weight and fineness of those metals. The ownership of the supply of gold and silver in the world is not affected by the power of stamping. Nor is the quantity of these metals entering into exchanges controlled by this power of stamping; gold and silver bullion may be, and are, used in making exchanges as well as coin. The monopoly of the government is not, then, a monopoly of the supply of the precious metals.

Again, the government possesses no monopoly over the mediums by which by far the greater amount of exchanges are effected. It has no monopoly of the credit given in the business world. It cannot regulate the number of checks which business men shall write. Even if the monopoly over the supply of the precious metals were absolute, until the government can control the expansion and contraction of credit, it cannot be said to possess any effectual monopoly of the supply of our medium of exchange.

It will be said, however, that at least the government selects and maintains our standard of deferred payment. Is even this wholly true? When a business man makes a contract to pay one hundred dollars in one year, because the government says that this contract calls for payment in gold, is the government thereby maintaining a gold standard? Suppose the law read merely "contracts shall not be broken," would it not be a quite simple matter for the parties to any contract calling for payment in the future to insist that the contract read "one hundred dollars payable in gold pieces of a certain weight and fineness"? This would be an inconvenience to be sure, but is so far from being inconceivable that it is what in all probability would take place in the absence of government interference. It is on account of the inconvenience, and on no other account, that the government undertakes to define the word "dollar" to mean a certain amount of gold of guaranteed fineness. It does this to save individuals the trouble of doing it in each special case and contract, and to lessen the opportunity of committing fraud upon those who have no means of weighing and testing gold. And what I would call attention to is that in thus declaring what the dollar is, the law can in no way influence the value of the dollar, or rather of the gold entering into the dollar. Further, in thus defining the dollar, the government is not maintaining or imposing any standard for the discharge of debts payable in the future. The standard of deferred payment is determined upon in each special contract by the contracting parties. They may choose gold, or they may choose wheat or houses or land or any other

commodity as the basis of deferred payment. The courts will enforce a contract to pay bushels of wheat as strictly as a contract to pay dollars of gold, and will not by so doing determine the standard of payment any more than it determines the boundary of a piece of real estate, or the length of a railroad, by declaring what is the exact length of a foot measure.

It may be said, however, that, since in the absence of special provisions to the contrary the courts always enforce payment in gold dollars, the government does in the great majority of cases fix the standard of deferred payment. The contradiction is only apparent, since the parties to a contract always go upon the assumption that in the absence of special provisions to the contrary, the courts will enforce payment in gold dollars. The government does not determine upon the standard of deferred payment here in any other sense than that in which it makes the will of a person dying intestate. It is necessary that property be disposed of in one way or another, and the law provides for that disposal in the case of intestacy. In doing so it does not make the will of any person. It has but put into the form of a legal enactment that form of disposal of an inheritance generally conceded on the average to be justest, and thus makes it unnecessary for a person who wills to have his property so disposed of, to go to the trouble of drawing up a special statement of his wishes. The case is analogous when the means of payment in a contract is not specified; then the parties to the contract tacitly contract for whatever happens to be legal tender. Therefore, they choose this standard by not taking any other, and they take the chances and risks openly accompanying the existing legal standard. To contract for gold is a special case. In determining the weight and fineness of the gold dollar the government is not fixing the standard of payment, but merely saving the contracting parties the trouble of weighing and testing the gold in each special case. The selection of the standard is the voluntary action of the parties to each contract.

Further, it is difficult to conceive any way in which the standard of deferred payment could be fixed by law without so

restricting the freedom of contract as seriously to inhibit business transactions, or without subjecting each business contract calling for payment in the future to the fickle influence of political changes. However exalted an opinion one may hold of the power of Congress, or of any other legislative body, a moment's reflection must make it clear that the power of government "to do what it likes" in monetary matters, is not unlimited. That all the great commercial countries of the world without exception have, within a few years, been brought to a gold basis, is not the work of legislators but of business men. The law on the statute books is in every instance but a copy of a decree previously passed by the business world. The basis of business operations is first established by business men and afterward declared by legislation. Legislation follows, as it always must, if it is to be effective, the course of public opinion; follows it, sometimes tardily, for that opinion must become pronounced and definite before it can be unmistakably interpreted and clearly expressed in a legal enactment. Governments, then, one may safely say, not only do not, they cannot determine the standard of deferred payment.

For an illustration of the impotency of the government to impose one or another standard upon the business world, one need only refer to the events of the summer of 1893. Some fear was felt among business men that the government was about to change the implied assumption in every contract that it be paid in gold. As the immediate result of this feeling business men generally took measures to secure themselves against any drop in the standard by dealing only in paper calling for payment in gold. Silver certificates and the silver dollar became objects of suspicion. Every precaution was taken to secure contracts against any breach by a fall in the value of the dollar from the gold to the silver basis. It is clear that contracts drawn payable in gold would be entirely removed from the field of legislation and, so, unaffected by any change in the value of the dollar.

The recent crisis is characterized as having been peculiarly the result of a monetary panic; and when one inquires into the

cause of the panic, it appears to have been not, indeed, any positive legislation on the part of the government—no such powerful stimulant needed to be administered to raise the pulse of the business world to a fever pitch—the cause of the panic lay in the mere suggestion, bandied carelessly about in contemporary politics, that the government had the power, and that it might exercise that power, to alter the monetary standard; or more exactly, to alter the legal definition of the term “dollar” as denoting a certain quantity of gold, a definition which business men had come to accept as final. This mere suggestion made business men anxious not to be caught with any great amount of silver in their hands; it made foreign investors in American securities anxious to secure payment at once, before any debasing of the currency could take place. Nor did the panic exist among business men alone, or even chiefly among them; it was widespread among the people, who began to distrust the course of future events and to call their hard-earned savings out of the banks, *in the form of gold coin*. Whatever their principles of monetary legislation, they were all agreed that their first individual interest lay in securing themselves against any depreciation of the standard, and all agreed that whatever standard Congress might declare to be the legal one, gold coin was a better standard without the law than silver with the law. To meet this very rational demand the banks were drained of their gold and even forced to liquidate their securities in clearing-house certificates. The irrationality is apparent, of those who at the same time that they were precipitating a run upon banks for gold coin, agitated for the institution of the silver standard. That the institution of the silver standard would continue an impossibility so long as people generally demanded payments to be made in gold, is evident. The whole reaction of the business world upon mere suggestion that the government might undertake to impose a new monetary standard shows conclusively what the power of legislation is to alter the standard and who select that standard.

Without entering further into the question of government interference, I wish to take up for consideration some of the

notions underlying the idea of a just monetary standard. I can not go on, however, without repeating at the risk of being wearisome, that should our present standard prove to be an unjust one, and should there be found a standard universally conceded to be absolutely just, the adoption of that standard in any single instance must still remain subject to individual free-will or prejudice; not to legislation. Even if it were possible for the government to impose a new monetary standard, and if it were shown that the business world needed such a standard, it would still have to be shown by advocates of government action that the business world could not itself best select; and establish and maintain the new standard. Business men are naturally not less acute than legislators in perceiving the advantages of one form of contract over another.

In rational monetary discussion, one finds usually predominant one of two ideas as to what constitutes a just or unvarying standard of deferred payment; such a standard is assumed to be either (1) one which varies with the average cost of producing commodities, or (2) one which does not so vary. No single standard can be found which will fluctuate exactly with commodities except a standard made up, as is the so-called multiple unit, from commodities themselves; a standard so made up approaches perfection as the number of commodities included in it increases—each commodity entering in proportion as it is important. In the monetary discussion of today, however, one finds silver dealt with as though it more nearly approached the ideal of the multiple standard than does gold. The great increase in the annual output of silver during the last quarter of a century, together with other conditions, has so affected the value of that metal that an ounce of it purchases to-day more nearly the same amount of commodities that it would purchase fifty years ago than does an ounce of gold. In other words, prices reckoned in silver have not fallen as the productiveness of industry has increased.

To find a commodity which shall serve as the basis of a standard of the second kind, an absolutely fixed standard, is no less

impossible than to find one which fluctuates with commodities. All commodities are subject to variations in value depending upon changes in the conditions of their own production. Gold has commonly been held both by economists and by the business world, to be a commodity more nearly fulfilling the conditions of such a standard than any other commodity. That the attitude of the business world toward gold has not changed is shown by the general adoption, during this century, of that metal as the single standard of value in all great commercial countries. There are, however, today a number of economists who have come to believe that what business men have been regarding as a depreciation of silver has really been an appreciation of gold; that gold has risen in value owing to its scarcity and to a new demand upon it for monetary purposes. Some of the arguments urged in support of this view will be taken up further on. It is essential here to get a clear idea of what is implied in the choice of one or the other of these two standards—the choice between what may for convenience be called a declining, and a fixed standard; a declining standard being one which allows prices to remain fixed as the productiveness of industry increases, and a fixed standard one which permits prices to fall under such conditions.

When it is urged that because silver has depreciated more nearly as the cost of producing other commodities has decreased than gold has done, or, in other words, that because prices reckoned in silver have not fallen as the productiveness of industry has increased, therefore, silver is a more perfect measure of value than gold, it is clearly assumed that a perfect standard of value is such a standard that contracts drawn in terms of it will call for just the same amount of commodities at any future date that they would call for today. Gold is a less perfect standard, because prices reckoned in gold have fallen as the productiveness of industry has increased. In brief, it is assumed that a perfect standard is one which declines as the cost of producing commodities falls. Theoretically, the issue between monometallists and bimetallists is not materially concerned with

this question of fixed and declining standards. It is, however, often confused with that question. As everyone knows, many arguments brought forward today in support of a double standard rest upon the belief that through the "remonetization" of silver, the standard might be so affected that the prices of commodities would not fall as the cost of production grew less. Mr. Barbour seems to accept this principle: "if labor becomes more efficient," he says, "and commodities are more easily produced, it would probably be better for the world that there should be a corresponding increase in the production of the precious metals, so as to prevent the disturbance which accompanies a fall in prices, even when it is due to increased production of commodities."¹ This end, many believe, perhaps with good reason, may be partially attained today through the remonetization of silver.

We are not now concerned with the question whether or not gold has actually appreciated during the last fifty years. The question which we have to keep in mind is not historical. Further, as only those contracts which extend over a period of time can be affected by a change in the value of the monetary standard, the question which we are to keep in mind may be concretely stated thus: Is it juster that a borrower pay back an equivalent in goods of what he has borrowed, rather than a certain fixed quantity of gold (supposing gold to be a standard of the second kind and unvarying)?

Granted that it is only just that a borrower fulfill the terms of his contract even if he loses in so doing, does it follow that he will lose when prices fall between the making and the maturing of a loan payable in currency? Let us consider a simple case where a man borrows \$100,000 to invest in a factory, agreeing to pay back the money in fifty years; and suppose that prices decline during that period at the rate of one per cent. a year, or fifty per cent. in the whole fifty years, in other words, that the \$100,000 will buy twice the amount of commodities at the end of the period

¹*The Theory of Bimetallism and the Effects of the Partial Demonetization of Silver on England and India*, p. 147.

that it would buy at the beginning of it. Does the borrower lose in proportion as prices have fallen? He is supposed to invest his \$100,000 as capital and to keep it so invested during the whole period. During this period the prices of the commodities turned out by the capital borrowed decline at the rate of one per cent. a year; but as prices decline the efficiency of the capital borrowed increases; or rather prices decline at the rate of one per cent. a year because the productivity of the labor and capital employed with the \$100,000 borrowed increases at the rate of one per cent. a year. At the end of the period, the productivity of the capital has increased fifty per cent., and prices have declined fifty per cent. If the efficiency of the capital borrowed had been increased by the individual effort of the borrower, he would have an indisputable prior claim upon that portion of the product resulting from the application of his own individual skill and inventiveness; but in the great majority of cases the productivity of the capital has been increased chiefly through social agencies entirely independent of the borrower. Anyone familiar with the processes of modern industry knows this to be the case; each industry profits by the discoveries and improvements entering into all other industries. The benefit derived from an improved plant for making iron casting distributes itself through all industries into which machinery enters; and so of all other improvements. The effectiveness of the \$100,000 capital borrowed is increased by the action of these agencies independently of the borrower. As each individual profits by the improvements made in his own and in other industries, he is able to increase his output, and to lower the price of the commodities produced. On the supposition above made, at the end of the period the capital borrowed represents a productive force twice as great as it represented at the beginning of the period, just as the \$100,000 if it had not been invested but hid away in a napkin, would represent double the purchasing power at the end of the period. It follows that, in being obliged to pay back the \$100,000, the borrower is not deprived of anything which he has produced.

The above example does not consider any other change in prices than one resulting from the increasing productiveness of industry. Clearly, borrowers may lose or gain by the accidental fluctuations in prices which cannot be foreseen, and which depend on the capricious moods of the money market. Fluctuations in prices, due to expansion and contraction of credit, are entirely independent of those permanent causes affecting the relative value of the precious metals. Such fluctuations do not depend upon the nature of the monetary standard, but upon the condition of the market, upon the feelings of confidence or of distrust prevalent at the time in the business world, and they must not be confused with changes in prices consequent upon the progress of the productive arts.

One objection will be made to the inference drawn from the example given above, namely, that owing to the decline in prices of commodities the capitalist will be obliged to sell his goods one per cent. cheaper each year, and that, accordingly, the value of his capital will fall at the rate of one per cent. a year. It must be borne in mind, however, that the lowering in price is the result of improved and cheaper methods of production; that the capitalist sells his goods cheaper by one per cent. each year because the cost of their production has been lowered by that amount each year. The borrowed capital is so modified and improved by mechanical skill and inventiveness during the fifty years it remains in the hands of the borrower, that at the end of that period it turns out twice the product that it did at the beginning. What was borrowed was not a certain amount of gold, nor the power to purchase a certain amount of commodities, but the power to enter into the field of industry with a productive engine of a certain capacity, the product of labor and capital, and of the accumulated mechanical wisdom of society. As this industrial engine was so modified through social industrial progress that labor exerted through it became more and more efficient, the commodities representing this productive force increased. Measured in commodities, the productive power, represented in the example given by \$100,000, doubled. The

borrower, therefore, suffers no injustice when he is required to pay back a sum which represents double the amount of commodities it represented when he borrowed the money.

If now we change one of the conditions of the above problem, and suppose a monetary system which fluctuates with commodities, it appears that what may for convenience be called the unearned increment of capital remains with the borrower. During the fifty years the productiveness of the capital borrowed has doubled; and, since prices have not fallen, the money value of the product, and consequently of the capital, has doubled. Therefore, the borrower can pay back his whole debt with half his capital, keeping the other half, or the unearned increment, himself.

The increase in the productive power of capital engaged in industry is analogous to the rise in the value of land in a growing community. Just as the change in the value of land results from the growth and development of the community, and not entirely from the individual exertion of lessor or lessee, so the productiveness of capital changes through general modifications in the processes of production which go on entirely independently of the borrower or of the lender. It is not contended that the lender of the capital has any abstract right to any increment which may take place in his capital owing to these general influences. It is contended only that the borrower has no better claim upon the unearned increment than the lender, any more than the person renting a piece of land has a juster claim to the unearned increment than the owner of the soil. In either case there may be an injustice in allowing the gain or loss to be sustained by private parties, but justice does not demand that one rather than the other party should sustain the change in value. So long, however, as society decrees that the owner of the capital shall bear the risk of its depreciation, society cannot ask him to forego the chances of profit.

It appears, then, that by the choice of one or the other of the only two possible standards, the ownership of the unearned increment of capital loaned is determined. As this increment is

an unearned increment there is as much justice in allowing the owner of the capital to take it as there is in allowing any individual to take it.

We are, then, finally in position to answer those who assert that a decline in prices works injustice to those who have borrowed money, since it allows the money lender to get back an equivalent of more commodities than he loaned. The answer is that though the lender does thus reap where he has not sown, he does not rob the borrower's barns, but if he robs at all, he robs that visionary storehouse which society has built in its imagination to receive unearned increments from those who may be disposed to separate that portion of their income from the rest and to hand it over to the lawfully appointed officers.

It is not my purpose here to discuss how society ought to dispose of this increment, or whether or not society may justly undertake the disposal of it, but only to bring out clearly what is involved in the establishment of one or the other monetary standard, *i. e.*, in the establishment either of one which varies with the cost of producing commodities, or of one which does not so vary; and having stated what I conceive the issue to be, I wish to take up another matter involved in the choice of a standard.

It is often urged that declining prices make the times hard and cause a stagnation in business; and that a reaction upon wages causes them to decline also.

That a cheapening of the processes of production in any one industry may cause temporary over-production in that industry, and a consequent decline in prices and wages, is not only true, but has been asserted over and over by economists. This condition, however, can last only till a readjustment of labor and capital follows the modification of the processes of production. Such transition may be accompanied with great distress when of a sudden and revolutionary character, and it is not uncommon to charge the entire catastrophe to low prices. It will be seen, however, upon a moment's reflection, that the low prices here

which cause distress are the result, not of cheaper processes of production, but of a temporary and special over-production. When labor and capital have adjusted themselves, prices of the commodities affected may be permanently lowered, not only without causing distress, but to the advantage of all who buy the cheapened commodities, and without a lowering of wages or profits. The capitalist can afford to sell his goods cheaper because it costs less to produce them. It is clear then that the temporary distress arises, not from a lowering of prices, but from misdirected production, and that it would in no way be alleviated by any manipulation of the currency which should prevent prices from falling. It is absurd to suppose that there is any given level of prices at which alone capital can obtain its permanent and usual profit.

Declining prices do not, then, necessarily cause a decline either in wages or in profits; it is indeed probable that in almost all cases a decline in prices has an effect upon wages directly the opposite to that which it is commonly supposed to have—that declining prices may tend to keep real wages from falling during transitional periods. That society as a whole receives benefit from each improvement in the arts of production, needs no demonstration here; that each benefit conferred will require time to spread itself throughout all grades of society, is equally clear. The introducer of improved processes is first benefited, and as other employers adopt the improvement they come in for a share of the benefit; as the improvement becomes general the benefit is shared by society at large. Real wages will be raised either through a rise of money wages, prices remaining constant, or, if prices fall, through a fall in prices. In the one case the wage-earner receives no benefit until he has obtained an advance in his money wages. In the other, he receives benefit immediately as prices fall, and without having to wait for an advance in his money wages. When prices remain fixed and the advance in real wages must come through an advance in money wages, so long as the employer can stave off that advance, so long is the laborer shut out from his share of the increase in the product.

Naturally the employer will use his utmost efforts to prolong the period between the introduction of the improved process and the advance in wages, and the condition of fixed prices offers him every opportunity to do so. On the other hand, when prices fall, real wages rise *because money wages are not reduced*. The wage-earner thus receives the benefit of the inertia which tends to keep money wages unchanged.

It has not been the purpose of the above discussion to solve any of the many problems with which monetary legislation has to deal, but only to state clearly some of the conditions of these problems. Among other conditions the following: that legislation does not and cannot select the standard of value commonly employed in business transactions, that standard being selected in the open market by those immediately interested, *i. e.*, business men; that the question involved in the choice of a standard of deferred payment is the decision as to individual ownership of a certain portion of the "unearned increment" of society; and, finally, that a decline in prices accompanying a cheapening of the cost of production is not an evil, but that it tends to secure to the laborer at once benefits which, if prices remained fixed, he could secure only through effecting a rise in money wages—that such a rise must follow improvements which lower the cost of production slowly if at all.

In the light of the above conclusions, I wish to examine briefly some of the propositions brought forward today directly for the mending of our monetary system, indirectly for the securing of all things desirable.

Proceeding from the simplest to the more complex, these propositions arrange themselves as follows: (1) That the government issue enough paper money to give employment to all who may at any time be out of work (usually coupled with the demand that the government loan this currency at a low rate of interest to debtors); (2) that the government coin silver in unlimited quantities free of charge; (3) that the government coin silver at a fixed ratio to gold, above the market ratio. One principle, or rather, one idea, or feeling, underlies these several

propositions—the idea that money ought to be cheaper, or more precisely, that prices ought not to fall.

That this idea of cheap money lies back of the proposition for an issuance of unsecured legal tender paper, is clear to everyone, and is put forward as the glory of the thought by those who urge the proposition. It accordingly needs no demonstration.

That the same idea, somewhat masked and confused with another idea, and asserted often negatively rather than positively, underlies the proposition for free coinage of silver is also clear. If to some supporters of free coinage the idea of cheaper money presents itself in the assertion that gold has appreciated, still the majority of free coinage men wish free coinage in order to bring in *depreciated silver*, and in either case the demand, whether negatively or positively stated, resolves itself into a demand for cheaper money here also.

Upon its face the third proposition bears no connection with the demand for cheaper money ; actually, however, the demand for a legal fixing of the ratio in which gold shall exchange for silver, either through national action or through international agreement, has grown out of the same feeling which has inspired the two above mentioned propositions, *since the ratio to be established is not the market ratio, but one more favorable to silver*. Here, however, the idea takes its firm stand upon the negative basis that gold has appreciated.

As the demand for a double standard is based thus upon the assertion that gold has appreciated, it is necessary for those who make that demand to prove (1) that such an appreciation has really taken place, and (2) that that appreciation has been brought about by an increasing demand for the metal for monetary uses.

These propositions are, however, usually taken for granted. It is assumed at the start that gold has appreciated. Not that the idea of appreciation means anything very definite, nor that anyone really knows how much gold has appreciated, nor that there is any way of finding out whether it has done so or not. Of course no intelligent man today attributes the entire fall in

prices to the appreciation of gold. No one can calculate the cheapening effects of the improvements in industrial processes. Of the centralization of industries and the accompanying division of labor, of the introduction of such forces as electricity—the effects of these modifications everybody knows to be incalculable. But the argument about improved processes is heard so often that as an explanation of the fall in prices, it is really getting tiresome from repetition, and it does seem as though ordinary ingenuity ought to suggest something new in place of this threadbare and prosaic assertion—it certainly has not the fetching qualities of the cheap-money-and-enough-for-all idea. Unfortunately, however, these cheapening influences have to be taken into account, and unless they are denied, they seriously invalidate the theory that gold has changed rather than commodities.

The appreciation of gold, having been assumed to have taken place, is further assumed to have been caused by an increasing demand for gold for monetary purposes. One familiar with the modern methods of effecting exchanges will find it difficult to understand just how this increased demand has been brought about. When it is borne in mind that only four or five per cent. of the world's exchanges are effected by the actual transfer of gold, it is not easy to perceive how any even very considerable increase in the amount of those exchanges can have created a new demand upon gold sufficient to raise the value of the whole quantity of gold in existence to an extent in any way comparable to the amount of appreciation assumed to have taken place. If any evidence is needed to prove that there is no pressing demand for more gold currency, it can be found in the very fact put forward as an evidence of the scarcity of gold, *i. e.*, that the consumption of gold in the arts almost equals the annual production of the mines. It goes without saying that the total amount of gold produced each year is each year consumed in one way or another; which is only saying that the gold produced is not thrown away but used. The amount of gold required for consumption in the arts is not, however, a fixed quantity. The consumption of gold in the arts, perhaps, more

than of any other commodity, is a matter of choice, and the amount consumed may vary indefinitely. If there were need for more gold currency, a portion, at least, of the new product would be sent to the mints for coinage. It does not seem to have occurred to those who are anxious about the scarcity of gold that the reason so much gold is consumed in the arts is that it is not wanted in the form of money; that gold as a means of effecting exchanges has been supplanted by the use of checks and credit, and by other forms of representative money. It is a mere commonplace that "in commercial countries the *standard* of value is no longer the instrument by which exchanges are effected, symbols in great measure taking its place." Petty exchanges are effected chiefly by the transfer of paper and subsidiary silver coin, and larger operations chiefly upon a credit basis. Consequently the quantity in circulation of that metal which fixes the standard need not increase in any fixed proportion to the development of commerce and industry. And here it may be pointed out incidentally that the mere fixing upon gold as a standard of value does not necessarily alter the relative quantities of gold and silver in circulation. In those countries which have adopted the gold standard, silver still circulates, as it always has done, as subsidiary currency. Granted, then, for sake of argument, that gold has appreciated, that appreciation cannot be explained by any increased demand for gold for use as money, and if the appreciation cannot be explained by an increased monetary demand, it could not be allayed by a relaxation of that demand.

Further, the annual output of gold is not falling off. In the current (April) number of the *Quarterly Journal of Economics*¹ President Andrews speaks of "the considerable new output of gold the past year, nearly certain to continue a decade or two," and of the improved methods of mining gold, which makes it possible today to work mines at a profit that could not under former methods be made to pay. President Andrews does not think this a sufficient guarantee that the output of gold may

¹ p. 324.

not fall off in the future ; and it certainly is not such a guarantee. The increase in the annual output of gold has always depended, as it does today, upon the opening of new mines and the application of new processes of mining. The annual output of gold was greatly increased about the middle of this century. It is today about double what it was prior to 1850, and there is no evidence that the annual supply is about to fall off. On this side, therefore, the idea that gold is becoming scarce does not seem substantiated.

As applied to prices, moreover, there appears to be a deeper fallacy underlying the assumption that gold is becoming scarce, namely, the belief that prices vary with the quantity of gold in circulation. The immense credit deposit accounts in the banks, and the very general use of checks and notes and of silver, make it clear that gold is but one element in price. No definite amount of gold is required to transact a given amount of business. The actual amount of gold required to transact business in any community depends upon prejudices and customs and methods of trading. Where the banking system is highly developed a small quantity of coin suffices ; where there is no such system and where the people are unwilling to accept paper, there gold must be used. In our own country, gold has been largely supplanted by the use of various forms of what may be called representative money. This is a matter of business convenience. To connect the fall in prices which characterizes the closing decades of the century with the small amount of gold entering into exchanges in any relation of cause and effect is a complete *non sequitur*.

The above considerations are some of the reasons for believing that gold has not appreciated owing either to an increased monetary demand for it, or to changes in the annual output. Taken in conjunction with the influences which have been at work upon silver, especially the great increase in the annual output of that metal, the commercial world seems quite justified in its opinion that it is silver which has changed during the last twenty-five years and not gold.

The proposition to remonetize silver at a ratio to gold higher than the market ratio is, therefore, a proposition to lower the standard of value. It is a proposition so to readjust the monetary system as to do away with the decline in prices which has accompanied the increasing productiveness of industry. Like the propositions for free coinage of silver and for the issuance of legal tender paper, it is a proposition for cheap money.

It is the thought of cheap money that has sustained our crusading "industrials," and has enabled them to undergo the hardships of a long tramp to Washington. The thought is one which any one who is unprejudiced can comprehend; it appeals alike to the simple and the wise, to dealers in patent medicines, politicians, and to newspaper correspondents, and to every economist, practical or theoretical. What can be plainer than that we want more money than we have, and that the easiest way to get it is to make as much as we want, or if we cannot do that, at least make money as cheap as we can? Of course everyone knows that it is not money that we want, economists are all right in saying that it is what money will buy that we want; but they cannot all of them see how it is that if money is cheap prices will rise, and wages very soon follow, and that although we may have to pay more for what we get, yet somehow we shall be better off.

The several propositions made for cheapening money differ from one another in that there is no common agreement as to just how cheap money ought to be. There are those who would cheapen it by an issue of paper, others by free coinage of silver, others still by a lowering of the ratio of gold to silver; but all agree in condemning a monetary system under which prices fall, and all demand such a system that prices shall not fall—in other words, all agree in preferring what I have called a declining standard. In view of this demand as made today, several observations are in point: (1) It is based upon the assumption that the government selects and maintains the standard of value and that the government can impose any standard it may select upon the business world. We have had abundant

evidence that the government has power greatly to interrupt the course of trade by threatening to change the value of the dollar ; but that the government can in any considerable degree effect the value of the gold entering into the dollar, or can force the business world to cease drawing contracts payable in gold, is an entirely unwarranted assumption. It may be observed further (2) that the demand for a declining standard is not based upon a recognition of the real issue, namely, the determination of the question which of the parties to a contract for future payment shall retain possession of that increment to capital resulting not from individual exertion and skill, but from social progress. And, finally (3), it is assumed that industrial prosperity depends upon the maintenance of high prices, high money wages, high money profits. Clearly, however, as high real wages and profits can be earned where prices are low as can be earned where prices are high. It has been pointed out that where prices fall as the productiveness of industry increases, the corresponding rise in real wages is more naturally and speedily brought about than where prices of commodities do not so fall. Plainly, too, money and prices are not the cause of prosperity. The most perfect monetary system cannot, in the absence of certain conditions, secure prosperity ; but nothing is surer than that business operations may be seriously inhibited by threatened changes in monetary legislation. When such changes are made party issues and are based on principles of party policy rather than on sober and scientific investigation, the extent to which business may be disturbed is incalculable.

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